



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**FILED**

07-03-07

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In the Matter of the Application of )

CALIFORNIA WATER SERVICE COMPANY (U 60 W), )

a corporation, )

for an order authorizing it to increase rates charged for )

water service in its Chico District by \$6,380,400 or 49.1% )

in July 2008, \$1,651,100 or 8.5% in July 2009, and by )

\$1,651,100 or 7.9% in July 2010; )

in its East Los Angeles District by \$7,193,200 or 36.5% )

in July 2008, \$2,034,800 or 7.6% in July 2009, and by )

\$2,034,800 or 7.0% in July 2010; )

in its Livermore District by \$3,960,900 or 31.2% in July )

2008, \$942,200 or 5.6% in July 2009, and by \$942,200 )

or 5.4% in July 2010; )

in its Los Altos-Suburban District by \$5,172,500 or 30.5% )

in July 2008, \$1,189,100 or 5.4% in July 2009, and by )

\$1,189,100 or 5.1% in July 2010; )

in its Mid-Peninsula District by \$5,435,100 or 23.7% in )

July 2008, \$1,634,200 or 5.8% in July 2009, and by )

\$1,634,200 or 5.5% in July 2010; )

in its Salinas District by \$5,119,700 or 29.8% in July )

2008, \$3,636,900 or 16.3% in July 2009, and by )

\$2,271,300 or 8.7% in July 2010; )

in its Stockton District by \$7,474,600 or 29.0% in July )

2008, \$1,422,400 or 4.3% in July 2009, and by \$1,422,400 )

or 4.1% in July 2010; )

and in its Visalia District by \$3,651,907 or 28.4% in July )

2008, \$3,546,440 or 21.3% in July 2009, and by \$3,620,482 )

or 17.6% in July 2010; )

Application No. **A0707001**

Filed

APPLICATION

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San Francisco, California 94111

Attorneys for Applicant

July 3, 2007

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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CALIFORNIA WATER SERVICE COMPANY (U 60 W),	)	
a corporation,	)	
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in July 2008, \$1,651,100 or 8.5% in July 2009, and by	)	
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in its East Los Angeles District by \$7,193,200 or 36.5%	)	
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in its Livermore District by \$3,960,900 or 31.2% in July	)	
2008, \$942,200 or 5.6% in July 2009, and by \$942,200	)	
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in its Salinas District by \$5,119,700 or 29.8% in July	)	
2008, \$3,636,900 or 16.3% in July 2009, and by	)	
\$2,271,300 or 8.7% in July 2010;	)	
in its Stockton District by \$7,474,600 or 29.0% in July	)	
2008, \$1,422,400 or 4.3% in July 2009, and by \$1,422,400	)	
or 4.1% in July 2010;	)	
and in its Visalia District by \$3,651,907 or 28.4% in July	)	
2008, \$3,546,440 or 21.3% in July 2009, and by \$3,620,482	)	
or 17.6% in July 2010;	)	
_____	)	

APPLICATION

TO THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA:

The application of California Water Service Company respectfully shows:

(1) The legal name of Applicant is California Water Service Company and its principal place of business is located at 1720 North First Street, San Jose, California 95112.

(2) Applicant is presently engaged in the business of the supply and distribution of water for domestic and industrial purposes in many localities in the State of California.

(3) This Application is made in relation to Applicant's service in its Chico, East Los Angeles, Livermore, Los Altos, Mid-Peninsula, Salinas, Stockton, and Visalia operating districts. In addition, the Application requests review of expenses incurred and investment made in general operation. In compliance with Decision (D.) 07-05-062, the adopted general operations costs will be allocated to all other operating districts by advice letter at the conclusion of this proceeding.

(4) Applicant is a California corporation. A copy of Applicant's Restated Articles of Incorporation was filed with the Public Utilities Commission in connection with Application 96-12-029.

(5) The following attachments are marked as shown, incorporated herein, and attached hereto:

Attachment A	Proposed Schedule
Attachment B	Present Rate Schedules
Attachment C	Proposed Rates
Attachment D	Proposed Notice to customers
Attachment E	Financial Statements
Attachment F	Proxy Statement

In accordance with D. 07-05-062, the following testimony and supplemental information is not filed, but is served on DRA and the Legal Division. Copies of these documents, in hard copy and electronic form, will be provided to all active parties and will be presented into evidence at the hearing in this matter as required to substantiate Applicant's request.

General Report

Minimum Data Requirements Cross-  
Reference

Results of Operation Report,	All Filed Districts (8)
Report on Sales Forecasts	
Report on Conservation Programs	
Report on Water Quality	
Report on Project Justifications,	All Filed Districts and GO (9)
Report on Unregulated Operations	
DRA Master Data Request Response,	All Filed Districts and GO (9)
Workpapers,	All Filed Districts and GO (9)
Urban Water Management Plans	

(6) Comparative financial statements for Applicant (Statement of Income & Balance Sheets for the 12 months ending December 31, 2006) are set forth in Attachment E.

(7) A general description of Applicant's properties and the field of its operations has been set forth and shown in proceedings before the Commission in applications to the Commission in which authority has been requested to mortgage the said properties and to issue and sell securities. Further information in relation to Applicant's district facilities is contained in the annual reports filed with the Commission.

(8) The historical costs of properties used by Applicant in water service in its districts are shown in Chapter 8 of Applicant's Results of Operation Reports (RO Reports). Table 8-A shows the original historical cost or estimated historical cost of the properties at the date of acquisition by Applicant, subject only to certain minor exceptions generally approved by the Commission and accepted for rate-making purposes, with subsequent additions, betterments, extensions, and replacements being recorded at actual cost to Applicant. Applicant's depreciation reserve as recorded on its books as of December 31, 2006, is shown on Table 9-C in the RO Reports.

(9) The rate schedules setting forth present rates in the districts are those last authorized by the Commission for each district. These schedules are attached as Exhibit B.

(10) This Application is filed in accordance with D.05-07-062 and its Appendix the Rate Case Plan or RCP). The decision allows Applicant to file a General Rate Case for eight districts and, at the conclusion of the proceeding, apply the General Office expenses and rate base to its other sixteen districts. In addition to the filing requirements for the eight districts, Applicant is providing supplemental information on all other districts in support of a finding that general office allocations resulting from this proceeding should be allocated to them. As follows, Applicant shows the Application filing requirements for the filed districts and for its General Office.

(11) As some of the increases in revenue requirement pertain to General Office cost increases, they are summarized and explained briefly here.

**Increased Allocated Company Benefits Costs [\$25.5 million]**

Applicant accounts for employee benefits through general operations. These costs are allocated to districts based on the four-factor method. Benefits costs for health care, pension, and retiree health care have increased faster than general inflation during recent years. Applicant is also proposing changes in the funding of pension and retiree health care costs to improve intergenerational equity among ratepayers. Further details on company benefits costs are in the General Report.

**Increased Other General Expenses [\$8.3 million]**

In addition to administrative salaries and company benefits, general costs of operation have increased since the last adopted test year. Included among these costs are increased auditing and administration to comply with the Sarbanes-Oxley Act of 2002 and increased expenses for workers' compensation insurance.

**Increased Allocated General Payroll Expense [\$8.3 million]**

General payroll allocation includes the expensed payroll of administrative staff in general operations, including experts in water quality, operations, information systems, accounting and finance, engineering, purchasing, field maintenance, regulatory compliance, and administration. In addition, certain programs with company-wide application are proposed and implemented as general expenses and allocated. As described in the General Report, Applicant plans to hire additional staff in all functional areas to improve operations and support to districts. Major programs described in the General Report include a cross-connection control program, a unidirectional flushing program, a management trainee program, and a statewide after-hours call center.

## Chico District Table of Rate Change

Chico District Comparison Between Proposed Test Year, Last Test Year Adopted and Last Recorded Year (Dollars in Thousands)			
	Last Test Year Adopted 2005-6	Last Recorded Year 2006	Proposed Test Year 2008-9
Total Revenue Requirement	\$12,021.7	\$12,760.0	\$19,388.6
Rate Base \$	\$24,650.6	\$33,157.9	\$39,713.3
Rate Base \$ Difference	\$0.0	\$8,507.3	\$15,062.7
Rate Base % Difference	0.0%	34.5%	61.1%
Operating Expenses	\$9,932.6	\$10,689.7	\$15,947.9
Operating Expenses \$ Difference	\$0.0	\$757.1	\$6,015.3
Operating Expenses % Difference	0.0%	7.6%	60.6%
Rate of Return	8.47%	6.24%	8.66%

### Summary of Reasons for the Rate Change Request

Applicant has estimated the Chico District test year revenue requirement to be \$6,830,400 or 49.1% more than is generated at present rates. Major causes for this request are detailed below. However, the largest factor in the requested increase comes from plant investment to replace aging infrastructure and meet water quality regulations.

### Major Items Description

#### 1. Increase in Rate Base [\$2.8 million revenue requirement]

Applicant's capital investment program will add \$15 million in utility plant between the last test year and the proposed test year. Most of the improvements are to upgrade aging infrastructure and add supply. The Chico Report, Chapter 8, and the Chico Budget Report describe Applicant's budgeted capital improvements in detail.

#### 2. Increased Allocated Company Benefits Costs [\$1.5 million]

See summary above.

#### 3. Direct District Payroll [\$0.6 million revenue requirement]

The Chico District payroll is increasing due to additional demands of new customers and regulations.

#### 4. Increased Other General Expenses [\$0.6 million]

See summary above.

#### 5. Increased Allocated General Payroll Expense [\$0.4 million]

See summary above.

### Controversial Items

Applicant is not aware that any request made in this application is controversial.

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## East Los Angeles

### Table of Rate Change

East Los Angeles District Comparison Between Proposed Test Year, Last Test Year Adopted and Last Recorded Year (Dollars in Thousands)			
	Last Test Year Adopted 2005-6	Last Recorded Year 2006	Proposed Test Year 2008-9
Total Revenue Requirement	\$18,627.8	\$18,871.8	\$26,919.6
Rate Base \$	\$25,342.0	\$29,848.2	\$37,405.8
Rate Base \$ Difference	\$0.0	\$4,506.2	\$12,063.8
Rate Base % Difference	0.0%	17.8%	47.6%
Operating Expenses	\$16,480.3	\$17,073.4	\$23,678.8
Operating Expenses \$ Difference	\$0.0	\$593.1	\$7,198.5
Operating Expenses % Difference	0.0%	3.6%	43.7%
Rate of Return	8.47%	6.03%	8.66%

### Summary of Reasons for the Rate Change Request

Applicant has estimated the East Los Angeles District test year revenue requirement to be \$7,193,400 or 36.5% more than is generated at present rates. Major causes for this request are detailed in the next section. However, the bulk of the requested increase comes from two factors. First, Applicant faces higher purchased water costs from decreased ability to pump local groundwater. Second, Applicant's capital investment program will add \$12 million in utility plant between the last test year and the proposed test year. These factors together account for the majority of the increase from the last adopted test year.

### Major Items Description

#### 1. Purchased Water Costs [\$2.6 million revenue requirement]

Applicant anticipates pumping less local groundwater than adopted in the last test year. In addition, Applicant estimates less purchased water credit from leasing unpumped water rights. Finally, the unit cost of purchased water has increased.

#### 2. Increase in Rate Base [\$2.5 million revenue requirement]

Applicant's capital investment program will add \$17.5 million in utility plant between the last test year and the proposed test year. Most of the improvements are to upgrade aging infrastructure, improve local groundwater production, and add system storage. The East Los Angeles Report, Chapter 8, and the East Los Angeles Budget Report describe Applicant's budgeted capital improvements in detail.

#### 3. Increased Allocated Company Benefits Costs [\$1.4 million]

See summary above.

#### 4. Increased Other General Expenses [\$0.6 million]

See summary above.

#### 5. Increased Allocated General Payroll Expense [\$0.5 million]

See summary above.

### Controversial Items

Applicant is not aware that any request made in this application is controversial.

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## Livermore Table of Rate Change

Livermore District Comparison Between Proposed Test Year, Last Test Year Adopted and Last Recorded Year (Dollars in Thousands)			
	Last Test Year Adopted 2005-6	Last Recorded Year 2006	Proposed Test Year 2008-9
Total Revenue Requirement	\$11,544.9	\$11,342.3	\$16,648.1
Rate Base \$	\$15,105.5	\$17,396.6	\$25,672.0
Rate Base \$ Difference	\$0.0	\$2,291.1	\$10,566.5
Rate Base % Difference	0.0%	15.2%	70.0%
Operating Expenses	\$10,264.7	\$10,701.3	\$14,423.9
Operating Expenses \$ Difference	\$0.0	\$436.6	\$4,159.2
Operating Expenses % Difference	0.0%	4.3%	40.5%
Rate of Return	8.48%	3.69%	8.66%

### Summary of Reasons for the Rate Change Request

Applicant has estimated the Livermore District test year revenue requirement to be \$3,960,900 or 31.3% more than is generated at present rates. Major causes for this request are detailed in the next section. However, the bulk of the requested increase comes from plant investment to replace aging infrastructure. Applicant's capital investment program will add \$14.4 million in utility plant between the last test year and the proposed test year. This single factor represents almost half the requested increase.

### Major Items Description

#### 1. Increase in Rate Base [\$2.1 million revenue requirement]

Applicant's capital investment program will add \$14.4 million in utility plant between the last test year and the proposed test year. Most of the improvements are to upgrade aging infrastructure or improve the operations of the district. The Livermore Report, Chapter 8, and the Livermore Budget Report describe Applicant's budgeted capital improvements in detail.

#### 2. Increased Allocated Company Benefits Costs [\$0.9 million]

See summary above.

#### 3. Purchased Water Costs [\$0.9 million revenue requirement]

The unit cost of purchased water has increased.

#### 4. Increased Other General Expenses [\$0.4 million]

See summary above.

#### 5. Increased Allocated General Payroll Expense [\$0.2 million]

See summary above.

### Controversial Items

Applicant is not aware that any request made in this application is controversial.

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## Los Altos-Suburban Table of Rate Change

Los Altos Suburban District Comparison Between Proposed Test Year, Last Test Year Adopted and Last Recorded Year (Dollars in Thousands)			
	Last Test Year Adopted 2005-6	Last Recorded Year 2006	Proposed Test Year 2008-9
Total Revenue Requirement	\$16,338.7	\$16,420.5	\$22,116.1
Rate Base \$	\$19,394.2	\$23,731.1	\$29,540.4
Rate Base \$ Difference	\$0.0	\$4,336.9	\$10,146.2
Rate Base % Difference	0.0%	22.4%	52.3%
Operating Expenses	\$14,694.9	\$15,275.8	\$19,556.7
Operating Expenses \$ Difference	\$0.0	\$580.9	\$4,861.8
Operating Expenses % Difference	0.0%	4.0%	33.1%
Rate of Return	8.48%	4.82%	8.66%

### Summary of Reasons for the Rate Change Request

Applicant has estimated the Los Altos-Suburban District test year revenue requirement to be \$5,172,500 or 30.6% more than is generated at present rates. Major causes for this request are detailed in the next section. However, about half of the requested increase comes from plant investment to improve local water supplies and replace aging infrastructure.

### Major Items Description

#### 1. Increase in Rate Base [\$2.0 million revenue requirement]

Applicant's capital investment program will add \$18.5 million in utility plant between the last test year and the proposed test year. Most of the improvements are to upgrade aging infrastructure and improve local groundwater production. The Los Altos Report, Chapter 8, and the Los Altos Budget Report describe Applicant's budgeted capital improvements in detail.

#### 2. Increased Allocated Company Benefits Costs [\$1.1 million]

See summary above.

#### 3. Purchased Water Costs [\$0.5 million revenue requirement]

The unit cost of purchased water has increased.

#### 4. Increased Other General Expenses [\$0.5 million]

See summary above.

#### 5. Increased Allocated General Payroll Expense [\$0.4 million]

See summary above.

### Controversial Items

Applicant is not aware that any request made in this application is controversial.

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## Mid-Peninsula Table of Rate Change

Mid Peninsula District Comparison Between Proposed Test Year, Last Test Year Adopted and Last Recorded Year (Dollars in Thousands)			
	Last Test Year Adopted 2005-6	Last Recorded Year 2006	Proposed Test Year 2008-9
Total Revenue Requirement	\$21,637.5	\$21,321.0	\$28,340.8
Rate Base \$	\$33,329.1	\$37,214.5	\$43,867.2
Rate Base \$ Difference	\$0.0	\$3,885.4	\$10,538.1
Rate Base % Difference	0.0%	11.7%	31.6%
Operating Expenses	\$18,814.9	\$19,091.5	\$24,540.1
Operating Expenses \$ Difference	\$0.0	\$276.6	\$5,725.2
Operating Expenses % Difference	0.0%	1.5%	30.4%
Rate of Return	8.47%	5.99%	8.66%

## Summary of Reasons for the Rate Change Request

Applicant has estimated the Mid-Peninsula District test year revenue requirement to be \$5,435,900 or 23.7% more than is generated at present rates. Major causes for this request are detailed in the next section. However, the bulk of the requested increase comes from Applicant's capital investment program. Applicant expects to add \$20 million in utility plant between the last test year and the proposed test year.

## Major Items Description

### 1. Increase in Rate Base [\$2.4 million revenue requirement]

Applicant's capital investment program will add \$10.5 million in utility plant between the last test year and the proposed test year. Most of the improvements are to upgrade aging infrastructure. In addition, Applicant continues to look for alternative sources of supply for emergencies. The Mid-Peninsula Report, Chapter 8, and the Mid-Peninsula Budget Report describe Applicant's budgeted capital improvements in detail.

### 2. Increased Allocated Company Benefits Costs [\$1.7 million]

See summary above.

### 3. Purchased Water Costs [\$1 million revenue requirement]

The Mid-Peninsula District is currently 100% reliant on purchased imported water. Unit costs have increased.

### 4. Increased Other General Expenses [\$0.6 million]

See summary above.

### 5. Increased Allocated General Payroll Expense [\$0.4 million]

See summary above.

## Controversial Items

Applicant is not aware that any request made in this application is controversial.

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**Salinas**

Table of Rate Change

<b>Salinas District</b> <b>Comparison Between Proposed Test Year, Last Test Year Adopted and Last Recorded Year</b> <b>(Dollars in Thousands)</b>			
	Last Test Year Adopted 2005-6	Last Recorded Year 2006	Proposed Test Year 2008-9
Total Revenue Requirement	\$16,116.8	\$16,626.7	\$25,682.0
Rate Base \$	\$34,867.3	\$40,259.6	\$58,961.6
Rate Base \$ Difference	\$0.0	\$5,392.3	\$24,094.3
Rate Base % Difference	0.0%	15.5%	69.1%
Operating Expenses	\$13,162.1	\$13,282.0	\$20,573.6
Operating Expenses \$ Difference	\$0.0	\$119.9	\$7,411.5
Operating Expenses % Difference	0.0%	0.9%	56.3%
Rate of Return	8.47%	8.31%	8.66%

## Summary of Reasons for the Rate Change Request

Applicant has estimated the Salinas District test year revenue requirement to be \$8,469,700 or 49.3% more than is generated at present rates. Major causes for this request are detailed in the next section. However, the largest factor in the requested increase comes from plant investment to replace aging infrastructure and meet water quality regulations.

## Major Items Description

### 1. Increase in Rate Base [\$4.2 million revenue requirement]

Applicant's capital investment program will add \$33.6 million in utility plant between the last test year and the proposed test year. Most of the improvements are to upgrade aging infrastructure, construct new water supply facilities, and treat wells for nitrates, iron and manganese, and other regulated constituents. The Salinas Report, Chapter 8, and the Salinas Budget Report describe Applicant's budgeted capital improvements in detail.

### 2. Increased Allocated Company Benefits Costs [\$1.6 million]

See summary above.

### 3. Purchased Water Costs [\$0.7 million revenue requirement]

As discussed in more detail in the Salinas Report, Chapter 5, Applicant has added more Basin Water wellhead treatment facilities. These are accounted-for as purchased water.

### 4. Increased Other General Expenses [\$0.6 million]

See summary above.

### 5. Increased Contracted Maintenance Expense [\$0.5 million]

Salinas contracted maintenance costs have increased faster than general inflation in the last five years. However, Applicant agreed to a lower amount of contracted maintenance in rates in the last GRC as part of a settlement. Applicant is rehabilitating several wells in the district in 2008 and 2009. Applicant proposes to amortize the expense portion of those projects over three years.

## Controversial Items

Applicant is not aware that any request made in this application is controversial.

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## Stockton Table of Rate Change

Stockton District Comparison Between Proposed Test Year, Last Test Year Adopted and Last Recorded Year (Dollars in Thousands)			
	Last Test Year Adopted 2005-6	Last Recorded Year 2006	Proposed Test Year 2008-9
Total Revenue Requirement	\$23,409.6	\$24,124.4	\$33,209.2
Rate Base \$	\$38,607.6	\$36,939.2	\$61,067.8
Rate Base \$ Difference	\$0.0	(\$1,668.4)	\$22,460.2
Rate Base % Difference	0.0%	-4.3%	58.2%
Operating Expenses	\$20,138.1	\$19,373.0	\$27,918.3
Operating Expenses \$ Difference	\$0.0	(\$765.1)	\$7,780.2
Operating Expenses % Difference	0.0%	-3.8%	38.6%
Rate of Return	8.47%	12.86%	8.66%

### Summary of Reasons for the Rate Change Request

Applicant has estimated the Stockton District test year revenue requirement to be \$7,474,600 or 29.0% more than is generated at present rates. Major causes for this request are detailed in the next section. However, the largest factor in the requested increase comes from plant investment to replace aging infrastructure and meet water quality regulations.

### Major Items Description

#### 1. Increase in Rate Base [\$4.1 million revenue requirement]

Applicant's capital investment program will add \$22.5 million in utility plant between the last test year and the proposed test year. Most of the improvements are to upgrade aging infrastructure and meet water quality standards for arsenic, iron, and manganese. The Stockton Report, Chapter 8, and the Stockton Budget Report describe Applicant's budgeted capital improvements in detail.

#### 2. Increased Allocated Company Benefits Costs [\$2.0 million]

See summary above.

#### 3. Purchased Water Costs [\$1.4 million revenue requirement]

As discussed in more detail in the Stockton Report, Chapter 5, the unit cost of purchased water has increased.

#### 4. Increased Other General Expenses [\$0.8 million]

See summary above.

#### 5. Increased Allocated General Payroll Expense [\$0.5 million]

See summary above.

### Controversial Items

Applicant is not aware that any request made in this application is controversial.

## Visalia

### Table of Rate Change

Visalia District Comparison Between Proposed Test Year, Last Test Year Adopted and Last Recorded Year (Dollars in Thousands)			
	Last Test Year Adopted 2005-6	Last Recorded Year 2006	Proposed Test Year 2008-9
Total Revenue Requirement	\$11,056.6	\$12,244.8	\$21,419.8
Rate Base \$	\$20,385.6	\$23,662.4	\$46,782.2
Rate Base \$ Difference	\$0.0	\$3,276.8	\$26,396.6
Rate Base % Difference	0.0%	16.1%	129.5%
Operating Expenses	\$9,329.5	\$11,838.9	\$17,366.6
Operating Expenses \$ Difference	\$0.0	\$2,509.4	\$8,037.1
Operating Expenses % Difference	0.0%	26.9%	86.1%
Rate of Return	8.47%	1.72%	8.66%

### Summary of Reasons for the Rate Change Request

Applicant has estimated the Visalia District test year revenue requirement to be \$8,432,300 or 64.9% more than is generated at present rates. Major causes for this request are detailed in the next section. However, the largest factor is increased plant investment. Applicant's capital investment program will add \$25.5 million in utility plant between the last adopted test year and the proposed test year.

### Major Items Description

#### 1. Increase in Rate Base [\$5.2 million revenue requirement]

Applicant's capital investment program will add \$41 million in utility plant between the last test year and the proposed test year. Most of the improvements are to provide additional water supply infrastructure and to respond to government mandates. Included in this figure are new wells and boosters to ensure adequate supply. Also, Applicant is required to replace its facilities in Mooney Boulevard (State Hwy 62) due to Cal Trans street widening. Finally, Applicant is complying with a 2004 state law that required meters on all service connections by 2025. The Visalia Report, Chapter 8, and the Visalia Budget Report describe Applicant's budgeted capital improvements in detail.

#### 2. Increased Allocated Company Benefits Costs [\$1.7 million]

See summary above.

#### 3. District Payroll [\$0.5 million revenue requirement]

Applicant has hired additional staff to provide service to the growing customer base and plans to hire additional field and customer service staff in 2008. Applicant discusses these requests in the Visalia Report, Chapter 5.

#### 4. Increased Allocated General Payroll Expense [\$0.5 million]

See summary above.

#### 5. Increased Other General Expenses [\$0.4 million]

See summary above.

### Controversial Items

Applicant is not aware that any request made in this application is controversial.

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**Summary of General Office Costs to be Applied to all of Applicants' districts by Advice Letter.**

<b>California Water Service Company - General Office Comparison Between Proposed Test Year, Last Test Year Adopted and Last Recorded Year (Dollars in Thousands)</b>			
	Last Test Year Adopted	Last Recorded Year 2006	Proposed Test Year 2008-9
Rate Base \$	\$22,916.5	\$35,066.6	\$41,525.2
Rate Base \$ Difference	\$0.0	\$12,150.1	\$18,608.7
Rate Base % Difference	0.0%	53.0%	81.2%
Operating Expenses	\$44,547.1	\$46,328.5	\$90,438.1
Operating Expenses \$ Difference	\$0.0	\$1,781.4	\$45,891.0
Operating Expenses % Difference	0.0%	4.0%	103.0%
Rate of Return	n/a	n/a	n/a

## Summary of Reasons for the Rate Change Request

The increase is primarily due to increased costs for Applicant's employee benefits and to a lesser extent costs for general allocated personnel. Reasons for the increase in general expenses are discussed more fully in the General Report.

## Major Items Description

### **1. Increased Allocated Company Benefits Costs [\$85,300]**

Applicant accounts for employee benefits through general operations. These costs are allocated to districts based on the four-factor method. Benefits costs for health care, pension, and retiree health care have increased faster than general inflation during recent years. Applicant is also proposing changes in the funding of pension and retiree health care costs to improve intergenerational equity among ratepayers. Further details on Company benefits costs are in the General Report.

### **2. Increased Other General Expenses [\$44,200]**

In addition to administrative salaries and company benefits, general costs of operation have increased since the last adopted test year. Included among these costs are increased auditing and administration to comply with the Sarbanes-Oxley Act of 2002 and increased expenses for workers' compensation insurance.

### **3. Increased Allocated General Payroll Expense [\$30,200]**

General payroll allocation includes the expensed payroll of administrative staff in general operations, including experts in water quality, operations, information systems, accounting and finance, engineering, purchasing, field maintenance, regulatory compliance, and administration. In addition, certain programs with Company-wide application are proposed and implemented as general expenses and allocated. As described in the General Report, Applicant plans to hire additional staff in all functional areas to improve operations and support to districts. Major

programs described in the General Report include a cross-connection control program, a unidirectional flushing program, a management trainee program, and a statewide after-hours call center.

#### **4. Increased Allocated General Office Rate Base**

GO rate base has increased due to Cal Water's continuing investment in computing, billing, and communications equipment. In the General Report, Cal Water details the current and proposed Information Technology Master Plan which comprises the majority of the GO capital budget.

#### **5. Increased Allocated General Payroll Taxes**

Payroll taxes are derived from GO employee payroll. As noted above, GO employee payroll has increased and is the third most significant reason for a rate increase.

### **Controversial Items**

Applicant is not aware that any request made in this application is controversial.

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Other required elements of the application under the RCP are shown below:

#### ***Results of Operation***

The results of operation for the each district and the General Office are shown in the Results of Operation Reports noted above.

#### ***Regulated Plant in Service***

Testimony regarding the plant in service is included in the Results of Operation Reports. Plant in service is calculated based on the recorded plant in service at the end of the last calendar year plus known and projected changes in calendar years 2007 through 2009. Major capital additions for 2007 through 2009 are shown in The Results of Operation Reports, Chapter 8, and are described in more detail in the Budget Reports.

#### ***Revenue Requirement***

The proposed revenue requirement is described in the Results of Operation Reports, Chapter 11. Major changes to revenue requirement are identified in the Results of Operation Reports as shown on Table 1-A.

### ***Cost of Capital***

Applicant's proposed cost of capital is assumed to be the proposed settled cost of capital in A.06-07-017, et al. Under the revised rate case plan, Applicant will file in 2008 for a review of its financial requirements. Capital cost for the test period is shown in the summary table below.

	<b><i>PRO FORMA AVERAGE CAPITAL</i></b>			<b><i>RATE OF</i></b>
	<b><i>AMOUNT</i></b>	<b><i>RATIO</i></b>	<b><i>EFF. RATE</i></b>	<b><i>RETURN</i></b>
<b><i>Estimated Average Rate of Return July 2007 to June 2010</i></b>				
First Mortgage Bonds	23,200	3.24%	9.56%	0.31%
Senior Notes	285,000	39.77%	6.45%	2.57%
Long-Term Debt	308,200	43.01%	6.69%	2.88%
Preferred Stock	3,475	0.48%	4.19%	0.02%
Common Stock	404,868	56.50%	10.20%	5.76%
	716,543	100.00%		8.66%

### ***Transactions with Corporate Affiliates***

Transactions with affiliates at the district level, specifically services provided to affiliates providing local operations services, are discussed in district Results of Operations Reports, Chapter 4. General affiliate transactions are addressed in the General Report, Chapter 10. These issues are also addressed in the Report on Unregulated Operations.

### ***Unregulated Transactions***

Unregulated transactions are discussed in the Report on Unregulated Operations.

### ***Proposed Schedule***

A proposed schedule is included as Exhibit A. It follows the draft schedule set forth in the Exhibit to the 2004 RCP. D.07-05-062 allowed Applicant to file in 2007 on a 14-month schedule for eight districts and General Office. Applicant does not think the Commission intended to limit DRA's review of the rate case as shown on the RCP 14-month schedule. That schedule is used for single-district utilities. Therefore, Applicant proposes a 14-month schedule consistent with the 2004 RCP.



### ***Water Supply and Quality***

Water quality and supply issues are addressed in the Report on Water Quality. Applicant's compliance with DHS standards and any MCL exceedence is also described in Report on Water Quality. A detailed list of water sources is included with the Results of Operation Reports, Chapter 3.

### ***Real Property Subject to Water Infrastructure Improvement Act of 1996***

Applicant has identified all property sold in its operating districts in previous applications to the Commission.

### ***Rate Increase History since Last GRC Decision***

The rate increase history for all operating districts is shown in the Results of Operation Reports, Chapter 2.

### ***Proposed Notice to Customers***

Proposed notices for all customers are included as Exhibit D. Applicant is providing notice to customers in sixteen districts not included in the GRC to make customers aware that the Commission may adopt updated General Office costs and apply them to all districts.

(11) Applicant has identified outstanding orders from prior Commission decisions in the General Report, Chapter 1.

(12) For districts in which Applicant requests a general review, applicant requests approval of rates that are designed to produce a rate of return of 8.66% in fiscal 2008-9. This rate of return on rate base would provide a return on equity of 10.20% in the test year. Applicant is using the cost of capital from its settlement in A.06-07-017 because Applicant is not filing to evaluate its financial requirements until May 2008 under the RCP.

(13) Applicant has estimated escalation-year rates using known inflation factors provided by Commission staff and has applied those factors as directed in the RCP except as noted in the special requests section below. Applicant acknowledges that the escalation-year filings for fiscal year 2009-10 and 2010-11 will be governed by updated inflation factors published at the time of filing. Any increase requested at this time cannot be predictive of inflation present at that time. For this reason, Applicant requests a waiver of the notice requirement under Rule 24 should the actual escalation-year increase exceed that noticed in this application. Language to this effect is included in the proposed notice to customers.

(14) Applicant proposes that the rate schedules included with the application, plus any interim offset increases or decreases authorized by the Commission subsequent to July 1, 2007, and thus not included in the Application, be adopted to supersede the schedules now in effect in the operating districts shown below. The amount of proposed gross revenues, together with the percentage of increase estimated to result from the proposed rate schedules, are shown for the fiscal year 2008-2009 in Table 4-F in Chapter 4 of the Results of Operation Reports for each district. Also included in that table are the proposed revenue increases, including percentage of increase, shown by appropriate rate classification for each of the three years. Applicant, by this filing, proposes to increase rates for water service in 2008-9 as follows (all \$ in thousands):

District	Test Year Revenues at Present Rates	Proposed Test Year Revenues	Revenue Increase	% increase
Chico	\$13,008.2	\$19,388.6	\$6,380.4	49.0%
East Los Angeles	\$19,726.4	\$26,919.6	\$7,193.2	36.5%
Livermore	\$12,687.2	\$16,648.1	\$3,960.9	31.2%
Los Altos	\$16,943.6	\$22,116.1	\$5,172.5	30.5%
Mid-Pen	\$22,905.7	\$28,340.8	\$5,435.1	23.7%
Salinas	\$17,212.3	\$22,332.0	\$5,119.7	29.7%
Stockton	\$25,734.6	\$33,209.2	\$7,474.6	29.0%
Visalia	\$12,987.9	\$16,639.8	\$3,651.9	28.1%

Applicant also requests escalation increases effective July 1, 2009, as follows (all \$ in thousands):

District	Proposed 2009-10 Revenues	Revenue Increase	Percentage Increase
Chico	\$21,039.7	\$1,651.1	8.5%
East Los Angeles	\$28,954.4	\$2,034.8	7.6%
Livermore	\$17,590.3	\$942.2	5.7%
Los Altos	\$23,305.2	\$1,189.1	5.4%
Mid-Pen	\$29,975.0	\$1,634.2	5.8%
Salinas	\$26,063.6	\$3,636.9	16.2%
Stockton	\$34,634.1	\$1,424.9	4.3%
Visalia	\$20,528.4	\$3,546.4	20.9%

Applicant also requests escalation increases effective July 1, 2010, as follows (all \$ in thousands):

District	Proposed 2010-11 Revenues	Revenue Increase	Percentage Increase
Chico	\$22,690.8	\$1,651.1	7.8%
East Los Angeles	\$30,989.2	\$2,034.8	7.0%
Livermore	\$18,532.5	\$942.2	5.4%
Los Altos	\$24,494.3	\$1,189.1	5.1%
Mid-Pen	\$31,609.2	\$1,634.2	5.5%
Salinas	\$28,445.2	\$2,271.3	8.7%
Stockton	\$36,059.0	\$1,424.9	4.1%
Visalia	\$24,564.9	\$3,620.5	17.3%

(15) Applicant makes the following additional requests:

A. A finding from the Commission that all operating districts provide water service that meets or exceeds state and federal drinking water standards and General Order 103. Applicant provides evidence of this compliance in the Report on Water Quality.

Revise the paragraph below.

B. Applicant requests that, in compliance with D.07-05-062, it be allowed to file advice letters to incorporate the allocated General Office revenue requirement into rates in its sixteen other operating districts. In order that customers have an opportunity to participate in this proceeding, Applicant is noticing the sixteen other districts of the following potential increases:

July 2009 General Office Allocated Cost Increase	Revenue Increase	Percentage Increase
Bakersfield	\$6,510.8	11.9%
Bear Gulch	\$2,460.8	12.4%
Dixon	\$250.3	15.8%
Hermosa Redondo	\$2,389.2	13.2%
King City	\$239.1	11.8%
Marysville	\$369.4	17.4%
Oroville	\$462.3	15.1%
Palos Verdes	\$2,739.0	10.5%
Selma	\$233.5	7.3%
South San Francisco	\$1,410.2	11.7%
Westlake	\$1,017.0	9.8%
Willows	\$246.2	18.7%
Antelope Valley	\$198.2	12.6%
Dominquez	\$3,654.1	11.0%
Kern River Valley	\$515.3	15.1%
Redwood-Coast Springs	\$52.1	25.2%
Redwood-Lucerne	\$259.5	21.3%
Redwood-Unified Area	\$79.8	13.8%

C. Applicant requests a modified method of escalation for the first escalation year General Office costs. As indicated in the general report, the prescribed method fails to fairly compensate Applicant for 1) wages of employees hired in 2009, 2) benefits of employees hired in 2009, 3) operations costs of 2009 capital improvements, and 4) health care cost increases that are increasing more rapidly than inflation. Applicant proposes modified attrition that would capture the cost (wage and benefits) of employees authorized to be hired in 2009, incremental operating costs of 2009 capital improvements, and health care inflation.

D. Applicant requests authority to amortize all balancing and memorandum account balances in its filed operating districts that are not currently undergoing an amortization. Applicable balances are shown in the district Results of Operation Reports, Chapter 12. Applicant reports on and requests amortization of balancing accounts in compliance with ordering paragraph 3 of D.06-04-037. This decision discontinued the interim practice of annual reserve account filings. The General Office synergies memorandum account was established by D.03-09-021.

E. Applicant requests an early, *ex parte* order authorizing it to raise the per-lot special facilities fees in Chico, Salinas, and Visalia to \$1,000, \$1,200 and \$1,100, respectively, for a

normal residential connection. Such an order would benefit existing customers in comparison to the per-lot special facilities fees currently in Rule 15.

F. Applicant requests a deviation from Rule 15 to unitize the collection of transmission main special facilities in the Visalia District. Applicant describes this proposal in the Visalia Results of Operations Report.

G. Applicant requests full-cost balancing accounts in its filed districts with multiple sources of supply (East Los Angeles, Livermore, and Los Altos). Applicant describes this request in the General Report, Chapter 1.

H. Applicant requests the Commission adopt an infrastructure improvement surcharge mechanism as described in Chapter 3 of the General Report.

I. Applicant requests authority to charge \$450 for fire flow tests requested by a customer or third-party as described in Chapter 3 of the General Report.

J. Applicant requests authority to institute a rate deferral with subsequent recovery for the Salinas and Visalia Districts to avoid rate shock issues associated with requested large percentage increases. Applicant requests recovery of \$4,856,600 deferred from rates in Salinas by instituting a \$0.126 surcharge on all water sold for a period of sixty months. Applicant requests recovery of \$8,078,600 deferred from rates in Visalia by instituting a \$0.111 surcharge on all water sold (and an equivalent flat rate surcharge) for a period of sixty months. In addition, Applicant's notice to customers in the Selma District associated with General Office allocated expenses includes a rate deferral with subsequent recovery.

K. Applicant requests a language change on its residential water service rate special conditions in the Livermore District to ensure that all similarly situated customers are eligible for a 1-inch service plus fire sprinkler discount.

L. Applicant requests that the transitional interim rates allowed under D.07-05-062 for the 16 districts not included in this filing be calculated based on the adopted escalation formula from those districts' last GRC.

M. Applicant requests that its modified escalation proposal for General Office costs be applied to the districts not included in this application by either adding that revenue to amount generated by the adopted attrition formula or including those costs in the transitional interim rates.

(16) In the preparation of the proposed rate schedules, Applicant has considered the operating results in the districts for at least the five-year period 2002 through 2006 as reflected in its Annual Reports to the Commission. Applicant has taken into consideration the trend in the various components of rate of return as established by experience, has adjusted for any known changes, excluding certain items covered by the offset filing procedure, and has estimated its results of operation for the fiscal year 2007-2008. Summaries of earnings for the estimated fiscal year at present and at proposed rates are set forth in Table 11-B in Chapter 11 of the RO Report for each District.

(17) Applicant owns and operates water systems in 24 districts in the State of California. These systems are not integrated with each other and, except for routine allocation of General Operation expenses, the expenses and revenues of each district are not affected by operations in other districts. It has been the practice of the Commission to require that each district be considered a separate and distinct entity for ratemaking purposes. Applicant's company-wide recorded earnings for the 12 months ending December 31, 2006, based upon a depreciated rate base, as evidenced by its Summary of Earnings Reports to the Commission, was 7.30%, reflecting the use of accelerated tax depreciation and normalization of income taxes.

(18) Applicant has elected to employ the full flow-through accelerated depreciation method in computing the depreciation deduction on pre-1981 plant additions, but has normalized depreciation expense on post-1980 plant additions as prescribed by the Economic Recovery Act of 1981 and the Tax Reform Act of 1986 for the purpose of determining its federal income tax payments. Applicant has used the same method in calculating federal income taxes for the test year 2008-2009 in the RO Report, Chapter 7.

(19) A copy of Applicant's latest proxy statement sent to its stockholders and containing the information required by the rules of the Securities and Exchange Commission is Attachment F.

(20) The name and address of the person to whom correspondence or communications in regard to the Application are to be addressed is Francis S. Ferraro, 1720 North First Street, San Jose, California 95112, telephone (408) 367-8200.

(21) The Application is made pursuant to the provisions of Section 454 of the Public Utilities Code of the State of California.

(22) Within 10 days after filing the Application with the Commission, Applicant will mail a notice to the following, stating in general terms the proposed increases in rates and also stating that a copy of the Application and related exhibits will be furnished by Applicant upon written request: (a) the State, by mailing to the Attorney General and the Department of General Services, (b) the Counties served, by mailing to the County Counsel and the County Clerk, and (c) the cities and towns served by mailing to the City Attorney and the City Clerk or other officials identified by those entities.

(23) Applicant's basic exhibits are served on all parties, but in accordance with the RCP are not filed with the Application. These exhibits have been provided to DRA and will be provided to additional parties as they are identified. Any supplemental exhibits will be provided at the direction of the assigned Administrative Law Judge.

(24) Finally, attached as Attachment B are the present district rate schedules. Attachment C shows Applicant's proposed rate schedules for the test year.

(25) In compliance with the Commission's 1998 filing requirements, the following items are included:

- a) Category – This Application is designated Ratesetting.
- b) Need for hearing – This application may require a hearing.

c) Issues – The issues in this application relate to cost of service and include, but are not limited to, return on investment, investment in utility plant, and rate base.

d) Schedule – A proposed schedule is attached as Attachment A.



WHEREFORE, Applicant respectfully requests that the Public Utilities Commission of the State of California make and enter its order approving and establishing the adjustment of rates to be charged by Applicant in its operating districts as the Proposed Application specifically sets forth, or establishing such other adjustment in rates as the Public Utilities Commission may deem appropriate in order to provide to Applicant a just and reasonable return upon the value of its property dedicated for water service in its operating districts.

Dated at San Jose, California this 3rd day of July, 2007.

CALIFORNIA WATER SERVICE COMPANY

By: /s/ Francis S. Ferraro  
Francis S. Ferraro  
Vice President

I, Francis S. Ferraro, declare and say that I am an officer, to wit, Vice President of the Applicant, a California corporation, making the foregoing Application; that I make this verification on behalf of said corporation; that I have read the Proposed Application and know the contents thereof; that the same is true of my own knowledge except as to the matters that are therein stated on information or belief, and as to those matters that I believe to be true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on July 3, 2007, in San Jose, California.

/s/ Francis S. Ferraro

Francis S. Ferraro

**EXHIBIT A****Proposed Schedule for Cal Water 2007 Rate Case districts**

Date	Event	Schedule Day
May 1, 2007	PA Filed	-63
June 1, 2007	Deficiency Letter	-32
June 8, 2007	Appeal to Executive Director	-25
June 13, 2007	Executive Director Acts	-20
July 3, 2007	Application Filed	0
July 10, 2007	Commissioner and ALJ Assigned	7
August 2, 2007	Update of Utility Showing	30
October 21, 2007	PPHs Begin	110
December 2, 2007	ORA Submits general exhibits and reports	152 **
December 22, 2007	Cal Water Rebuttal	172
December 26, 2007	Start of Settlement Negotiations	176
January 11, 2008	Hearings Begin	192
January 15, 2008	Hearings End	196
January 30, 2008	Briefs Filed	211
	File for Interim Rates	
May 9, 2008	ALJ's proposed decision filed	311
May 29, 2008	Comments on Proposed Decision	331
June 5, 2008	Replies to Comments	338
June 18, 2008	Commission Meeting	351
July 1, 2008	Interim Relief under PUCODE 455.2*	364

\*\* DRA has requested additional time. Cal Water does not oppose this request to the extent it does not impact the effective date or interim relief.